
PEOPLES OIL LIMITED

1987 ANNUAL REPORT

PEOPLES OIL LIMITED

Annual General Meeting

Shareholders are cordially invited to attend
the Company's Annual General Meeting
which will be held on
Monday, April 25th, 1988 at 9:30 a.m.
in the Viking Room at the Calgary Petroleum Club,
319 - 5th Avenue S.W., Calgary, Alberta.

Letter To The Shareholders

This report is submitted on behalf of the Board of Directors and will present a brief review of important developments which have affected the Company during the past year.

The Company

Peoples Oil Limited is a Calgary-based oil and gas exploration and development company whose activities are primarily concentrated in the Powder River Basin in Wyoming, with some other interests in Alberta and offshore Nova Scotia.

Mon-Oil Limited, the largest shareholder of Peoples, develops and operates oil and gas projects in which Peoples is invited to participate. Peoples' participation with Mon-Oil is on a heads-up basis.

Peoples also participates in projects developed by other oil and gas companies.

Crude Oil and Natural Gas Prices

The oil and gas industry continues to be plagued with fluctuating crude oil prices and abnormally low gas prices. This situation has made it most difficult to undertake meaningful economic analyses required for the development of oil and gas prospects.

South Cole Creek Project, Central Wyoming

Peoples and its partners are maintaining a restricted producing rate in excess of 150 barrels of oil per day, from three wells in the South Cole Creek field. The properties continue to produce trouble-free. No additional development is planned for the immediate future, although we are still interested in drilling a deep Dakota extension

test well on the north end of the field when arrangements can be made for the farm-in or acquisition of the prospect lands.

The South Cole Creek Dakota sand reservoir is an excellent source of light gravity crude oil. Our first oilwell in the reservoir, State #1, has been on continuous production for over seven years and has not incurred any significant expenditures for its operations. The State #1 well commenced production in 1982 at 25 barrels of oil per day and is currently producing 15 barrels of oil per day. The decline in productivity of the well is due mainly to a decrease in the reservoir pressure.

The working interest operator of the South Cole Creek Unit, which lies adjacent to our South Cole Creek producing leases, has expressed an interest in acquiring our properties for a large cash bonus. We are exploring the possibilities of such a sale, as we have other promising leases into which we could invest the proceeds from such a sale.

V-Two Draw Project, Central Wyoming

In June of 1987, Valentine #1, our producing Third Frontier oilwell, was successfully stimulated with a sand-diesel frac treatment. This treatment increased the producing rate from 10 barrels of clean oil per day to 25 barrels of clean oil per day. Prior to the stimulation treatment, the well had been placed on an extended bottom-hole pressure buildup test which indicated that there was no noticeable decline in reservoir pressure after approximately 35,000 barrels of crude oil had been produced. We interpret the pressure survey to mean that the reservoir is large in aerial extent even though the main oil producing sand member is only five feet in net thickness.

The producing sand is encountered at a depth of 9,640 feet and the cost of drilling to this depth, coupled with unstable oil prices, makes additional development drilling impractical at this time.

There has been a great deal of land activity in the vicinity of our V-Two Draw undrilled acreage where the Peoples group holds 3,000 gross acres and 2,000 net acres. Some adjacent unleased Federal leases sold in January, 1988 for \$160 U.S. per acre. This bonus was for five-year leases, whereas most of our leases are held by production and should be in effect for many years, thus making our leases more valuable.

Meridian Oil Inc. of Houston, Texas has approached our group with a request for an option to drill a deep Lakota sand test well on leases which are adjacent to part of our V-Two Draw leases. The Meridian well will be taken to a depth of approximately 10,200 feet and will be a three-quarter mile step-out to a well abandoned by Mobil Oil in 1987 which tested free oil from the Second Frontier sand at a depth of about 8,500 feet.

There is a strong possibility that Peoples will participate with Meridian in the drilling of the test well by pooling leases with Meridian prior to commencement of drilling operations. We anticipate that Peoples' interest will be about 15 to 25 percent of the project, which will cover about 1,200 leased acres. There are unleased Federal lands adjacent to the test well site. Meridian would hope to purchase these leases by open bidding if the test well was successful. The main geological objective is the Second Frontier sand; however, there are six other zones of possible production in the area, including the Shannon, First Frontier, Third Frontier, Muddy, Dakota, and

Letter To The Shareholders (continued)

Lakota sands. Together, these potential zones comprise reservoir rocks in excess of 125 feet in thickness, so the project is one of considerable importance to Peoples.

More details will be forthcoming to the Shareholders as the Meridian project proceeds. Meridian is a major U.S independent oil exploration and production company, and is a wholly owned subsidiary of Burlington Northern Railroads. Meridian has extensive oil and gas properties in the mid-continental area of the U.S. and in the North Sea, and is highly regarded in the oil and gas industry.

SDC Properties, South-West Colorado

The gas-condensate wells which we acquired from SDC in the Papoose Canyon field of southwest Colorado continue to produce trouble-free at production rates ranging from 20 to 30 barrels of condensate per day per well, and from 400 to 800 MCF of wet gas per day per well.

In April, 1987 gas prices fell from \$3.35 U.S. per MCF to \$1.25 U.S. per MCF. Condensate prices have also fallen, but not nearly as drastically as gas.

It is expected that gas prices will return to the \$3.35 U.S. per MCF level within about 18 months, or possibly sooner.

We are awaiting a decision by FERC (the U.S. Federal Energy Regulatory Commission) which may declare additional gas gathering and transmission systems in the U.S. as common carriers, thereby opening up new markets for the sale of gas. Inasmuch as our SDC gas producing properties at Papoose Canyon are in a relatively isolated area of southwest Colorado, we now are forc-

ed to accept whatever the pipeline is prepared to offer.

If new gas carrier rules are brought in by FERC, the marketability of our gas would be enhanced considerably.

Burke Ranch, Central Wyoming

During the past year there were several developments in the Burke Ranch area. Burke Ranch is located in central Wyoming, about 20 miles north of Casper. The Burke Ranch oil and gas area includes the Burke Ranch Dakota Sand Unit which covers approximately 1,700 acres and which was discovered by Exxon in 1951. The Unit wells produced large volumes of light gravity oil from a depth of about 6,500 feet in the Dakota sand (about 450,000 barrels per well). Detailed engineering, geological, and economic studies, conducted over the past five years by Mon-Oil Limited, indicate that an undeveloped area of Dakota sand lies adjacent to the developed area and that in all likelihood, high quality crude oil may be developed in the undrilled areas. This project would be highly economic at present crude oil prices of approximately \$16.00 U.S. per barrel.

During the past year, efforts by Mon-Oil to obtain oil and gas leases have resulted in the acquisition of about 29 percent working interest in the Burke Ranch Unit. Projects similar to Burke Ranch are being actively pursued, and should provide Peoples with an important source of minimum risk crude oil production.

Other Projects

Reno Wyoming Wildcat

Peoples is currently reviewing the geology and economics of participating in a wildcat well in cen-

tral Wyoming. This well will be drilled as a 15,200 foot Tensleep sand test by a major independent operator with headquarters in New Orleans. The well will be located on about 6,000 acres of potentially productive land, in which Peoples would own approximately 20 percent. Plans to drill the test well are almost complete, and drilling operations could commence by the beginning of the third quarter of this year. We will be sending a more complete report on this project as plans for the drilling of the test well progress.

Overthrust Belt, Western Wyoming

We are examining the possibility of developing oil and gas in other areas of the Rocky Mountains, including the overthrust belt of western and south western Wyoming, where Exxon and Amoco hold large areas of highly potential gas and gas condensate leases. The Company may participate with Amoco and/or Exxon in some drilling projects in this area.

Alberta and Saskatchewan

Peoples also plans to increase its search for oil and gas reserves in Canada, particularly in southern Alberta and possibly in parts of southwestern and southeastern Saskatchewan.

Finances

Peoples continues to show a strong working capital and financial position with a debt free balance sheet, while engaging in an active plan of development to increase our oil and gas production and cash flow.

If market conditions permit, the company plans to do an issue of treasury shares sometime late in the second quarter or early in the third quarter. Funds from this

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Letter To The Shareholders (continued)

issue would be used to develop additional high quality, low cost oil and gas reserve projects. As well, we will continue to examine acquisition possibilities which could further add to the cash flow of the company.

The future continues to look very bright for Peoples, and we are confident that we will see real

growth in 1988 and beyond.

We wish to take this opportunity to thank all those persons who have helped Peoples during the past year, including several members of the staff of Mon-Oil. We also thank our many shareholders for their continuing loyal support.

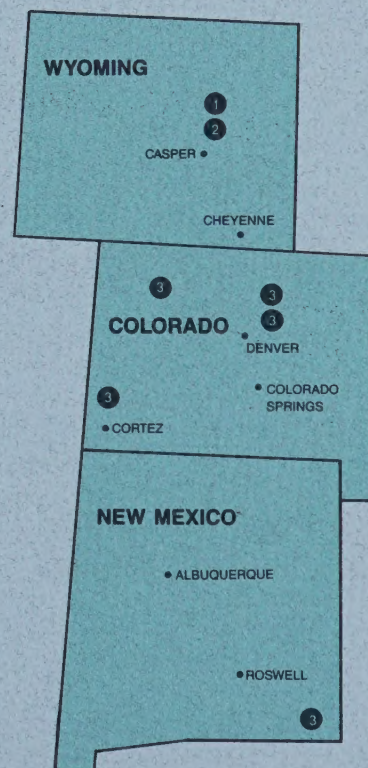
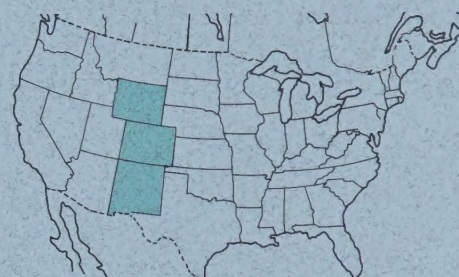
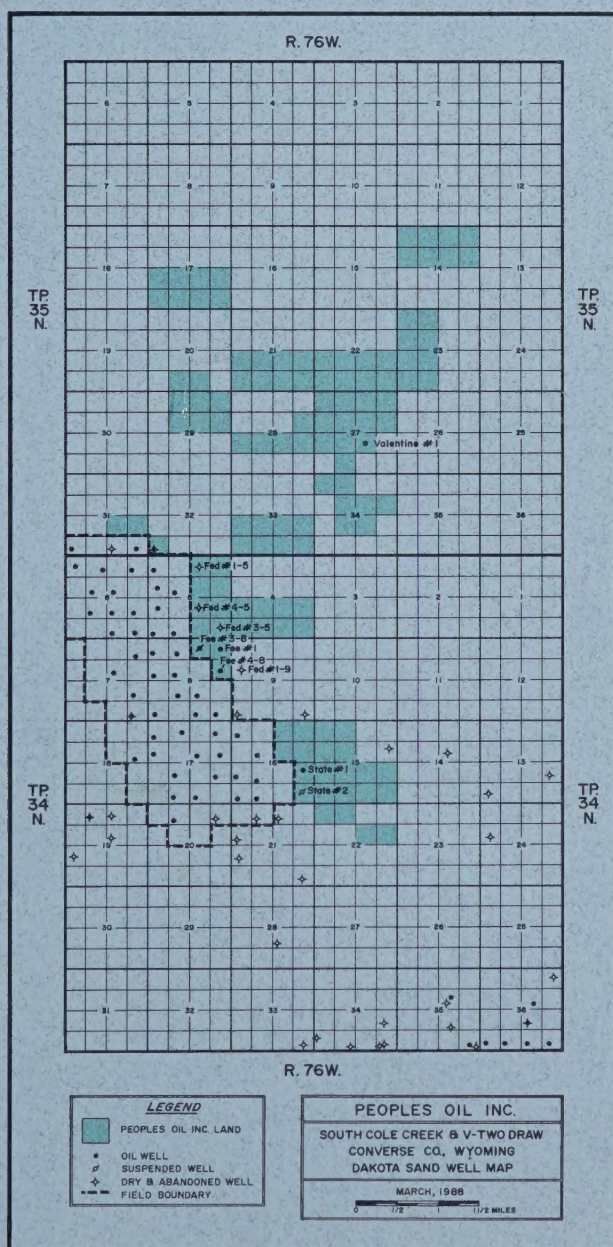
Respectfully submitted on behalf of the Board of Directors,

John B. Maughan

John B. Maughan, P.Eng.
President and Chief Executive Officer

Calgary, Canada

March 3, 1988



PEOPLES OIL INC.

LEGEND:

- 1 V-Two Draw
- 2 South Cole Creek
- 3 SDC

FINANCIAL STATEMENTS

Auditors Report

We have examined the consolidated balance sheet of Peoples Oil Limited as at October 31, 1987 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other pro-

cedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles ap-

plied on a basis consistent with that of the preceding year.

Paul Marwick

Chartered Accountants

Calgary, Canada
January 27, 1988

Consolidated Balance Sheet as at October 31, 1987

(with comparative figures for 1986)

Assets

Current assets:

	1987	1986
Cash and term deposits	\$ 1,047,876	\$ 949,062
Inventory	32,369	33,266
Due from affiliates	85,333	64,104
Accrued interest receivable	2,081	1,835
Total current assets	1,167,659	1,048,267
Petroleum and natural gas properties, at cost	1,088,616	1,071,469
Less accumulated depletion and depreciation	669,800	556,540
	418,816	514,929
Other	3,245	3,375
	<u>\$ 1,589,720</u>	<u>\$1,566,571</u>

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable	\$ —	\$ 215
Income taxes payable	2,942	26,000
Deferred income taxes	26,318	57,000
Total current liabilities	29,260	83,215
Deferred income taxes	228,951	254,745

Shareholders' equity:

Share capital (Note 4)		
Authorized:		
10,000,000 common shares without nominal or par value		
Issued:		
2,075,003 common shares		
(1986 - 1,955,003 common shares)	743,200	697,300
Foreign currency translation account	21,376	46,928
Retained earnings	566,933	484,383
	<u>1,331,509</u>	<u>1,228,611</u>
	<u>\$ 1,589,720</u>	<u>\$ 1,566,571</u>

On behalf of the Board:

John B. Brinkman, Director
Ken Shuman, Director

See accompanying notes.

FINANCIAL STATEMENTS

Consolidated Statement of Income and Retained Earnings as at October 31, 1987

(with comparative figures for 1986)

	1987	1986
Revenue:		
Oil and gas	\$ 302,265	\$ 434,330
Royalty	18,574	33,927
Interest	75,198	69,176
	<u>396,037</u>	<u>537,433</u>
Expenses:		
Production costs	45,275	62,154
Joint venture operating costs	42,377	65,565
Depletion and depreciation	146,240	165,650
General and administrative	69,860	39,569
Foreign currency loss (gain)	78	(2,889)
	<u>303,830</u>	<u>330,049</u>
Income before income taxes	92,207	207,384
Income taxes (Note 3):		
Current	41,432	26,000
Deferred	(31,775)	59,492
	<u>9,657</u>	<u>85,492</u>
Net income	82,550	121,892
Retained earnings, beginning of year	484,383	362,491
Retained earnings end of year	<u>\$ 566,933</u>	<u>\$ 484,383</u>
Earnings per share	<u>\$ 0.04</u>	<u>\$ 0.06</u>

Consolidated Statement of Changes in Financial Position as at October 31, 1987

(with comparative figures for 1986)

	1987	1986
Operating activities:		
Net income	\$ 82,550	\$ 121,892
Items not affecting working capital:		
Depletion and depreciation	146,240	165,650
Deferred income taxes	(1,093)	8,853
Net changes in non-cash working capital balances	<u>(74,533)</u>	<u>104,783</u>
	<u>153,164</u>	<u>401,178</u>
Investing activities:		
Additions to petroleum and natural gas properties	(90,292)	(42,009)
Effect of currency translation adjustments on cash flow	(9,958)	(975)
	<u>(100,250)</u>	<u>(42,984)</u>
Financing activities:		
Issue of common shares	45,900	—
Increase in cash and term deposits during the year	98,814	358,194
Cash and term deposits, beginning of year	<u>949,062</u>	<u>590,868</u>
Cash and term deposits, end of year	<u>\$ 1,047,876</u>	<u>\$ 949,062</u>

See accompanying notes.

FINANCIAL STATEMENTS

Notes to Consolidated Financial Statements as at October 31, 1987

1. Significant accounting policies:

a) Petroleum and natural gas properties:

The Company follows the full-cost method of accounting for oil and gas operations in accordance with the Canadian Institute of Chartered Accountants Accounting Guideline "Full Cost Accounting in the Oil and Gas Industry". Capitalized costs are limited to undiscounted estimated future net revenues, using prices at October 31, 1987, from production of proved reserves, after applicable income taxes and general and administrative expenses. Operations are carried out principally in the United States.

Costs incurred are being depleted on the unit of production method based on estimated proven reserves. The Company has not capitalized any general and administrative expenses for the year.

b) Foreign currency translation:

The accounts of the United States subsidiary, which is accounted for as self-sustaining operation, have been translated into Canadian dollars on the following basis:

(i) Assets and liabilities at the rate of exchange at the balance sheet date;

(ii) Revenue and expenses at the average rate of exchange for the year.

All gains and losses arising from foreign currency translation of the United States subsidiary are included in the foreign currency translation account.

c) Joint venture accounting:

Substantially all of the Company's exploration activities are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

d) Inventories:

Inventories are recorded at the lower of cost (first in first out) and replacement cost.

2. Related party transactions:

During the year, the Company made advances to Maughan Energy Limited, an affiliated company.

The Company participates in joint ventures with Mon-Oil Inc., a wholly-owned subsidiary of Mon-Oil Limited, a shareholder. The terms of the joint ventures are considered comparable to similar transactions with non-related parties. Substantially all capital expenditures incurred during the year relate to these joint ventures.

The Company has earned \$1,176 (1986 - \$1,186) of interest income on the amount due from Mon-Oil Inc.

Maughan Energy Limited (1986 - Mon-Oil Limited) has provided management services to the Company during the year in the amount of \$9,633 (1986 - \$10,008).

3. Income taxes:

	1987	1986
Provisions for income taxes based on combined basic Canadian federal and provincial tax rate of 50.2% (1986 - 48.8%)	\$ 46,300	\$ 101,203
Increase (decrease) in income taxes resulting from:		
Lower effective income tax rate on earnings of foreign subsidiary	(17,200)	(18,554)
Draw down of deferred income taxes accumulated at different rates	(19,443)	—
Other	—	2,843
	<u>\$ 9,657</u>	<u>\$ 85,492</u>

4. Share capital:

During the year 120,000 common shares were issued for cash of \$45,900 upon the exercise of stock purchase options. Stock purchase options:

Expiry Date	Option Price	Number Granted	Number Exercised/ Expired	Number Outstanding 1987
March 3, 1988	\$0.35	155,000	135,000	20,000
April 26, 1990	\$1.13	51,000	5,000	46,000
		<u>206,000</u>	<u>140,000</u>	<u>66,000</u>

FINANCIAL STATEMENTS

Notes to Consolidated Financial Statements (continued)

5. Segmented information:

The Company operates principally as an oil and gas exploration and development company.

	1987		
	Canada	United States	Total
Revenue:			
Oil and gas and royalty	\$ —	\$ 320,839	\$ 320,839
Interest	62,670	12,528	75,198
	<u>62,670</u>	<u>333,367</u>	<u>396,037</u>
Expenses:			
Production costs	—	45,275	45,275
Joint venture operating costs	—	42,377	42,377
Depletion and depreciation	—	146,240	146,240
Foreign currency loss	78	—	78
	<u>78</u>	<u>233,892</u>	<u>233,970</u>
Segmented income before the following	<u>\$ 62,592</u>	<u>\$ 99,475</u>	<u>162,067</u>
General and administrative			69,860
Income taxes			9,657
Net income			<u>\$ 82,550</u>
Identifiable assets	<u>\$ 812,536</u>	<u>\$ 777,184</u>	<u>\$ 1,589,720</u>

	1986		
	Canada	United States	Total
Revenue:			
Oil and gas and royalty	\$ —	\$ 468,257	\$ 468,257
Interest	65,676	3,500	69,176
Foreign currency gain	2,889	—	2,889
	<u>68,565</u>	<u>471,757</u>	<u>540,322</u>
Expenses:			
Production costs	—	62,154	62,154
Joint venture operating costs	—	65,565	65,565
Depletion and depreciation	—	165,650	165,650
	<u>—</u>	<u>293,369</u>	<u>293,369</u>
Segmented income before the following	<u>\$ 68,565</u>	<u>\$ 178,388</u>	<u>246,953</u>
General and administrative			39,569
Income taxes			85,492
Net income			<u>\$ 121,892</u>
Identifiable assets	<u>\$ 775,894</u>	<u>\$ 790,677</u>	<u>\$ 1,566,571</u>

6. Certain of the 1986 comparative figures have been reclassified to conform with the 1987 presentation.

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PEOPLES OIL LIMITED

Corporate Information

Officers and Directors:

John B. Maughan
President, Chief Executive Officer
& Director
Calgary, Alberta

Sherry L. Cremer
Corporate Secretary & Director
Calgary, Alberta

H. Norman Stewart
Treasurer & Director
Calgary, Alberta

John I. Maughan
Vice President Administration &
Director
San Francisco, California

Kenneth R. Murray
Director
Calgary, Alberta

Brett P. Maughan
Vice President Finance & Director
Seattle, Washington

Julia M. Gill
Vice President Public Relations &
Director
Vancouver, British Columbia

Art Evans
Director
Calgary, Alberta

John Melnyk
Vice President Operations
Calgary, Alberta

Head Office and Registered Office:

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717 - 7th Avenue S.W.
Calgary, Alberta T2P 0Z3
Phone: (403) 269-7717

Auditors:

Peat Marwick
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700 Second Street S.W.
Calgary, Alberta T2P 2W2

Bank:

The Royal Bank of Canada
Main Branch
339 - 8th Avenue S.W.
Calgary, Alberta T2P 1C4

Registrar and Transfer Agent:

The Canada Trust Company
505 - 3rd Street S.W.
Calgary, Alberta T2P 3E6
Phone: (403) 294-3333

Solicitors:

Parlee McLaws
3400 Western Canadian Place
707 - 8th Avenue S.W.
Calgary, Alberta T2P 1H5

DuMoulin, Black
1004 - 595 Howe Street
Vancouver, B.C. V6C 2T5

Exchange Listing:

Vancouver Stock Exchange
Symbol PPS

Authorized Capitalization:

10,000,000

Shares Issued:

2,095,003

